



Legislative Audit Division

State of Montana

Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Agriculture

This report contains three recommendations directed to the Department of Agriculture. Recommendations addressed in this report are related to:

- **Accounting for Loan Activities**
- **Documentation of Agriculture Development Council Decisions**
- **Accounting for Hail Insurance Refunds**

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
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Helena MT 59620-1705**

05-20

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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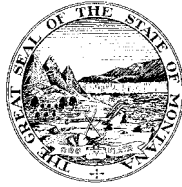
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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2005. This report includes three recommendations concerning accounting misstatements and documentation of Agriculture Development Council decisions. The department's written response is included in this report.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ James Gillett

James Gillett
Deputy Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Agriculture

Members of the audit staff involved in this audit were Chris Darragh,
Geri Hoffman, Brenda Kedish, and Amber Thorvilson.

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Appointed and Administrative Officials

Department of Agriculture

Nancy K. Peterson, Director

Kathy Seacat, Administrator, Central Services Division

Gregory H. Ames, Administrator, Agricultural Sciences Division

Joel A. Clairmont, Administrator, Agricultural Development Division

Administratively Attached Councils, Committees and Board

Agriculture Development Council

Board of Hail Insurance

Cooperative Agriculture Pest Survey Advisory Committee

Mint Committee

Montana Alfalfa Seed Committee

Montana Cherry Advisory Committee

Noxious Weed Advisory Council

Organic Commodity Advisory Council

Pesticide Advisory Council

Potato Advisory Committee

Weed Seed Free Forage Advisory Council

Wheat and Barley Committee

For additional information concerning the Department of Agriculture, contact:

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Helena, MT 59620-0201
(406) 444-3144
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Department of Agriculture

This report contains the results of our financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2005. The previous audit report of the department contained two recommendations. The department implemented both recommendations.

This report includes three recommendations to the department related to accounting for loan investment activities, documentation of Agriculture Development Council decisions, and accounting for hail insurance refunds.

We issued an unqualified opinion on the department's financial schedules for each of the two fiscal years ended June 30, 2004, and 2005, which means the reader may rely on the presented financial information and the supporting detailed information on the Statewide Accounting, Budgeting, and Human Resource System.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department record receivables and adjust expenditures related to loans issued by the Growth Through Agriculture program on the state's accounting system, as required by state accounting policy..... 3

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the department work with the Agriculture Development Council to implement guidelines for documenting decisions related to loan deferment and forgiveness. 4

Agency Response: Concur. See page B-4.

Report Summary

Recommendation #3

We recommend the department account for refunds issued under the Hail Insurance Program in accordance with state accounting policy. 5

Agency Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Review the department's internal financial operations, administrative controls, and make recommendations for their improvement.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the two fiscal years ended June 30, 2005.
4. Determine the status of the recommendations from the prior audit.

This report contains three recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the State of Montana mandates the legislature provide for a Department of Agriculture, with its duties to be established by law. The department's statutory functions and responsibilities are to:

1. Encourage and promote the interests of Montana agriculture.
2. Collect and publish agricultural statistics.
3. Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
4. Adopt standards for grade and other classifications of farm products.
5. Assist in the development of economical and efficient marketing distribution systems.

Introduction

6. Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.
7. Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Central Services Division (13 FTE) - includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions.

Agricultural Sciences Division (60.67 FTE) - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division (47.12 FTE) - administers programs that promote Montana agriculture through market development and business assistance. The program provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Agricultural Development Council, and the Board of Hail Insurance. The division includes the State Grain Laboratory, which performs tests to establish contract settlement prices between buyers and sellers of grain crops.

Prior Audit Recommendations

The prior financial-compliance audit of the department contained two recommendations. The department implemented both recommendations.

Findings and Recommendations

Accounting for Loan Activities

The department does not properly account for loan activities of the Growth Through Agriculture program.

The Montana Department of Agriculture's Growth Through Agriculture program offers loan opportunities for new and innovative agriculture marketing ideas or agribusiness developments. During fiscal years 2003-04 and 2004-05, the department issued 13 deferred loans, but did not establish a receivable for any of the loans on the state's accounting system. As a result, Grants from State Sources expenditures are overstated by \$226,965 in fiscal year 2003-04, and \$244,015 in 2004-05, in the Agriculture Development Division on the Schedule of Expenditures & Transfers-Out. In addition, receivables are understated by \$470,980 at June 30, 2005.

In the past, the department recorded an expenditure when making a loan because loan repayment was contingent upon attainment of benchmarks. When benchmarks were met and repayment began, the department's procedure was to record loan repayments as revenue. Benchmarks no longer trigger repayment. Department accounting procedures did not change when benchmarking requirements changed.

During the planning phase of the audit, department personnel expressed concern with department's accounting for loan activities. Department personnel stated their procedures did not include recording a receivable or adjusting the expenditures. State accounting policy requires agencies to establish receivables when recording loans on the state's accounting system.

Recommendation #1

We recommend the department record receivables and adjust expenditures related to loans issued by the Growth Through Agriculture program on the state's accounting system, as required by state accounting policy.

Findings and Recommendations

Documentation of Agriculture Development Council Decisions

Loan decisions that are made by the council lack documentation.

The Agriculture Development Council administers the Growth Through Agriculture program. The council is responsible for reviewing and issuing grants and loans to members of the agricultural industry. The council is also responsible for establishing repayment provisions and following up with collection actions. The council meets quarterly and votes on decisions related to the awarding and collecting of loans.

During the current audit we reviewed four loans. Two of the four applicants requested forgiveness of the loans and the other two requested deferment.

Of the two applicants that requested forgiveness, one received a forgiveness of only the interest accrued and the other received a deferment. Only one of these decisions included documentation on the basis for the council's decision. The decision that was not documented was to forgive the interest accrued. This applicant had two loans for a total of \$29,731.

Of the two applicants that requested deferment, one was granted forgiveness for the total loan amount of \$18,700. The basis for forgiving the loan was not documented and was not consistent with the request of the applicant or with the department's recommendation to the council.

When council decisions lack documentation it appears inconsistent decisions are being made between applicants. The department should work with the council to develop procedures or guidelines for documenting decisions on loan forgiveness and deferment.

Recommendation #2

We recommend the department work with the Agriculture Development Council to implement guidelines for documenting decisions related to loan deferment and forgiveness.

Findings and Recommendations

Accounting for Hail Insurance Refunds

The department did not properly account for refunds issued under the Hail Insurance Program.

The Montana Hail Insurance Program provides basic hail insurance coverage on many crops grown in Montana. If at the end of the hail insurance season, the Board of Hail Insurance determines that more funds are accumulating from the current year's rates than were estimated when the rates were established, and these funds are in excess of losses, expenses, and maintenance of the reserve, the board may refund the excess to current year policyholders.

The board declared a 10 percent refund in fiscal year 2003-04, and a 20 percent refund in fiscal year 2004-05. In both fiscal years the department recorded these refunds in the Supplies & Materials expenditure category rather than in the Other Expense expenditure category. As a result, Supplies & Materials expenditures are overstated and Other Expenses are understated by \$42,407 in fiscal year 2003-04. Central Services Division personnel processed correcting entries on the state's accounting system for the fiscal year 2004-05 refunds of \$791,026, once we notified them of this issue. Therefore, the state's accounting records are correct for fiscal year 2004-05.

State accounting policy directs a policyholder dividend (or return of contributions), to be recorded as a dividend expense within the Other Expense expenditure category. The last time a refund was issued, prior to fiscal year 2003-04, was in fiscal year 1998-99, so the department did not realize they used the wrong account.

Recommendation #3

We recommend the department account for refunds issued under the Hail Insurance Program in accordance with state accounting policy.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2004, and 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's, assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2004, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 22, 2005

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2004	\$ (463,343)	\$ 7,876,817	\$ (28,273)	\$ 7,141,233	\$ 0	\$ 0	\$ 4,863,357
PROPERTY HELD IN TRUST: July 1, 2004					\$ 281,930		
ADDITIONS							
Budgeted Revenues & Transfers-In	19,721	8,092,805	3,257,391	7,562,137			
NonBudgeted Revenues & Transfers-In	1,167	284,829	705	136			151,186
Prior Year Revenues & Transfers-In Adjustments	(489)	(24,236)	(13,966)				
Direct Entries to Fund Balance	1,463,283	439,004	37,850				13,018
Additions to Property Held in Trust					116,393	0	
Total Additions	<u>1,483,682</u>	<u>8,792,402</u>	<u>3,281,980</u>	<u>7,562,273</u>	<u>116,393</u>	<u>0</u>	<u>164,204</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,465,615	7,709,425	3,248,554	2,400,884			
NonBudgeted Expenditures & Transfers-Out	16,641	419,637		790,618		20	237,061
Prior Year Expenditures & Transfers-Out Adjustments	(85,796)	(66,860)	(110)	9		(20)	
Reductions in Property Held in Trust					89,073		
Total Reductions	<u>1,396,460</u>	<u>8,062,202</u>	<u>3,248,444</u>	<u>3,191,511</u>	<u>89,073</u>	<u>0</u>	<u>237,061</u>
FUND BALANCE: June 30, 2005	\$ (376,121)	\$ 8,607,017	\$ 5,263	\$ 11,511,995	\$ 0	\$ 0	\$ 4,790,500
PROPERTY HELD IN TRUST: June 30, 2005					\$ 309,250		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2003	\$ (218,765)	\$ 4,202,098	\$ (84,083)	\$ 5,294,315	\$ 0	\$ 3,553,079	\$ 5,072,433
PROPERTY HELD IN TRUST: July 1, 2003					\$ 323,908		
ADDITIONS							
Budgeted Revenues & Transfers-In	51,540	7,437,170	1,764,695	3,813,017			
NonBudgeted Revenues & Transfers-In	506	268,218	721	109			30,754
Prior Year Revenues & Transfers-In Adjustments		(75,651)					
Direct Entries to Fund Balance	1,434,191	4,061,243		1		(3,553,079)	13,287
Additions to Property Held in Trust					52,073		
Total Additions	<u>1,486,237</u>	<u>11,690,980</u>	<u>1,765,416</u>	<u>3,813,127</u>	<u>52,073</u>	<u>(3,553,079)</u>	<u>44,041</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,729,347	7,710,254	1,709,499	1,574,779			
NonBudgeted Expenditures & Transfers-Out	26,922	415,833	107	373,098			253,117
Prior Year Expenditures & Transfers-Out Adjustments	(25,454)	(109,826)		18,332			
Reductions in Property Held in Trust					94,051		
Total Reductions	<u>1,730,815</u>	<u>8,016,261</u>	<u>1,709,606</u>	<u>1,966,209</u>	<u>94,051</u>		<u>253,117</u>
FUND BALANCE: June 30, 2004	\$ (463,343)	\$ 7,876,817	\$ (28,273)	\$ 7,141,233	\$ 0	\$ 0	\$ 4,863,357
PROPERTY HELD IN TRUST: June 30, 2004					\$ 281,930		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 2,194,862				\$ 2,194,862
Taxes	\$ 406	2,624,374	\$ 678	\$ 54		2,625,512
Charges for Services		956,660	3	7,398,648		8,355,311
Investment Earnings		294,852	5,408	157,933	\$ 151,186	609,379
Fines, Forfeits and Settlements	2,090	4,710		5,556		12,356
Sale of Documents, Merchandise and Property		16,724				16,724
Miscellaneous	17,903	13,903	27	82		31,915
Grants, Contracts, Donations and Abandonments		230,707				230,707
Other Financing Sources		2,016,606				2,016,606
Federal			2,984,243			2,984,243
Federal Indirect Cost Recoveries			253,771			253,771
Total Revenues & Transfers-In	20,399	8,353,398	3,244,130	7,562,273	151,186	19,331,386
Less: Nonbudgeted Revenues & Transfers-In	1,167	284,829	705	136	151,186	438,023
Prior Year Revenues & Transfers-In Adjustments	(489)	(24,236)	(13,966)			(38,691)
Actual Budgeted Revenues & Transfers-In	19,721	8,092,805	3,257,391	7,562,137	0	18,932,054
Estimated Revenues & Transfers-In	150,792	8,238,390	4,123,507	1,585,400		14,098,089
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (131,071)	\$ (145,585)	\$ (866,116)	\$ 5,976,737	\$ 0	\$ 4,833,965
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ 5,317				\$ 5,317
Taxes	\$ (50)	286,812		\$ (100)		286,662
Charges for Services	(18,742)	(90,868)	\$ (2)	5,892,348		5,782,736
Investment Earnings		(288,298)	1,674	81,933		(204,691)
Fines, Forfeits and Settlements	(7,910)	(27,349)		2,556		(32,703)
Sale of Documents, Merchandise and Property		(1,795)				(1,795)
Miscellaneous	(104,369)	(12,482)				(116,851)
Grants, Contracts, Donations and Abandonments		(14,103)				(14,103)
Other Financing Sources		(2,819)				(2,819)
Federal			(796,965)			(796,965)
Federal Indirect Cost Recoveries			(70,823)			(70,823)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (131,071)	\$ (145,585)	\$ (866,116)	\$ 5,976,737	\$ 0	\$ 4,833,965

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 2,076,673				\$ 2,076,673
Taxes	\$ 281	2,524,114	\$ 721	\$ 42		2,525,158
Charges for Services		831,265	100	3,745,457		4,576,822
Investment Earnings		221,523	(227)	61,570	\$ 30,754	313,620
Fines, Forfeits and Settlements		9,125		5,990		15,115
Sale of Documents, Merchandise and Property		9,797				9,797
Miscellaneous	51,265	1,767		67		53,099
Grants, Contracts, Donations and Abandonments		164,349				164,349
Other Financing Sources	500	1,791,124				1,791,624
Federal			1,616,031			1,616,031
Federal Indirect Cost Recoveries			148,791			148,791
Total Revenues & Transfers-In	52,046	7,629,737	1,765,416	3,813,126	30,754	13,291,079
Less: Nonbudgeted Revenues & Transfers-In	506	268,218	721	109	30,754	300,308
Prior Year Revenues & Transfers-In Adjustments		(75,651)				(75,651)
Actual Budgeted Revenues & Transfers-In	51,540	7,437,170	1,764,695	3,813,017	0	13,066,422
Estimated Revenues & Transfers-In	16,238	8,426,126	3,348,979	1,641,600	350,000	13,782,943
Budgeted Revenues & Transfers-In Over (Under) Estimatec	\$ 35,302	\$ (988,956)	\$ (1,584,284)	\$ 2,171,417	\$ (350,000)	\$ (716,521)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (94,875)				\$ (94,875)
Taxes	\$ (50)	176,587		\$ (100)		176,437
Charges for Services	(13,688)	(818,008)		2,182,957		1,351,261
Investment Earnings		(543,382)	\$ (1,232)	(14,430)	\$ (350,000)	(909,044)
Fines, Forfeits and Settlements		(22,875)		2,990		(19,885)
Sale of Documents, Merchandise and Property		(1,103)				(1,103)
Miscellaneous	49,040	(241)				48,799
Grants, Contracts, Donations and Abandonments		(21,000)				(21,000)
Other Financing Sources		335,941				335,941
Federal			(1,443,454)			(1,443,454)
Federal Indirect Cost Recoveries			(139,598)			(139,598)
Budgeted Revenues & Transfers-In Over (Under) Estimatec	\$ 35,302	\$ (988,956)	\$ (1,584,284)	\$ 2,171,417	\$ (350,000)	\$ (716,521)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGRICULTURAL DEVELOPMENT	AGRICULTURAL SCIENCES DIVISION	CENTRAL SERVICES DIVISION	TOTAL
Personal Services				
Salaries	\$ 1,052,232	\$ 1,913,834	\$ 556,978	\$ 3,523,044
Hourly Wages	78,800	63,605		142,405
Other Compensation	10,625	2,500		13,125
Employee Benefits	315,186	627,723	152,555	1,095,464
Personal Services-Other	(408)			(408)
Total	<u>1,456,435</u>	<u>2,607,662</u>	<u>709,533</u>	<u>4,773,630</u>
Operating Expenses				
Other Services	437,072	444,086	45,390	926,548
Supplies & Materials	30,910	244,268	13,927	289,105
Communications	71,491	76,034	13,618	161,143
Travel	140,895	138,857	16,032	295,784
Rent	81,377	87,325	32,488	201,190
Utilities	8,562			8,562
Repair & Maintenance	5,628	47,383	2,367	55,378
Other Expenses	1,336,664	44,604	32,269	1,413,537
Total	<u>2,112,599</u>	<u>1,082,557</u>	<u>156,091</u>	<u>3,351,247</u>
Equipment & Intangible Assets				
Equipment		167,387		167,387
Capital Leases-Equipment-Nonbudgeted		8,825		8,825
Total		<u>176,212</u>		<u>176,212</u>
Grants				
From State Sources	1,577,723	1,914,420		3,492,143
From Federal Sources		1,879,453		1,879,453
Total	<u>1,577,723</u>	<u>3,793,873</u>		<u>5,371,596</u>
Benefits & Claims				
From State Sources	1,973,519			1,973,519
Total	<u>1,973,519</u>			<u>1,973,519</u>
Transfers				
Accounting Entity Transfers	37,659	251,954		289,613
Intra-Entity Expense		197,199		197,199
Total	<u>37,659</u>	<u>449,153</u>		<u>486,812</u>
Debt Service				
Capital Leases		2,662		2,662
Total		<u>2,662</u>		<u>2,662</u>
Total Expenditures & Transfers-Out	<u>\$ 7,157,935</u>	<u>\$ 8,112,119</u>	<u>\$ 865,624</u>	<u>\$ 16,135,678</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 1,254,106	\$ 141,385	\$ 969	\$ 1,396,460
State Special Revenue Fund	2,767,425	4,712,850	581,927	8,062,202
Federal Special Revenue Fund	4,470	3,020,181	223,793	3,248,444
Enterprise Fund	3,131,934	642	58,935	3,191,511
Permanent Fund		237,061		237,061
Total Expenditures & Transfers-Out	<u>7,157,935</u>	<u>8,112,119</u>	<u>865,624</u>	<u>16,135,678</u>
Less: Nonbudgeted Expenditures & Transfers-Out	999,505	464,472		1,463,977
Prior Year Expenditures & Transfers-Out Adjustments	(128,808)	(23,888)	(82)	(152,778)
Actual Budgeted Expenditures & Transfers-Out	6,287,238	7,671,535	865,706	14,824,479
Budget Authority	11,346,267	11,191,812	1,252,546	23,790,625
Unspent Budget Authority	<u>\$ 5,059,029</u>	<u>\$ 3,520,277</u>	<u>\$ 386,840</u>	<u>\$ 8,966,146</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 328,568	\$ 1,310	\$ 195,900	\$ 525,778
State Special Revenue Fund	852,705	672,409		1,525,114
Federal Special Revenue Fund	315,678	2,842,382	190,940	3,349,000
Enterprise Fund	3,562,078	4,176		3,566,254
Unspent Budget Authority	<u>\$ 5,059,029</u>	<u>\$ 3,520,277</u>	<u>\$ 386,840</u>	<u>\$ 8,966,146</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AGRICULTURAL DEVELOPMENT	AGRICULTURAL SCIENCES DIVISION	CENTRAL SERVICES DIVISION	TOTAL
Personal Services				
Salaries	\$ 1,045,014	\$ 1,792,778	\$ 519,563	\$ 3,357,355
Hourly Wages	84,276	53,671		137,947
Other Compensation	11,700	2,225		13,925
Employee Benefits	311,899	554,511	141,122	1,007,532
Personal Services-Other	(10,647)			(10,647)
Total	<u>1,442,242</u>	<u>2,403,185</u>	<u>660,685</u>	<u>4,506,112</u>
Operating Expenses				
Other Services	559,974	281,285	69,371	910,630
Supplies & Materials	91,742	261,148	26,662	379,552
Communications	72,230	66,589	10,847	149,666
Travel	246,395	142,464	18,352	407,211
Rent	57,675	81,776	30,990	170,441
Utilities	8,344			8,344
Repair & Maintenance	26,939	93,570	3,946	124,455
Other Expenses	854,924	46,172	46,121	947,217
Total	<u>1,918,223</u>	<u>973,004</u>	<u>206,289</u>	<u>3,097,516</u>
Equipment & Intangible Assets				
Equipment	53,169	144,781	7,930	205,880
Total	<u>53,169</u>	<u>144,781</u>	<u>7,930</u>	<u>205,880</u>
Grants				
From State Sources	1,830,962	1,864,387		3,695,349
From Federal Sources		532,351		532,351
From Other Sources	3,627			3,627
Total	<u>1,834,589</u>	<u>2,396,738</u>		<u>4,231,327</u>
Benefits & Claims				
From State Sources	1,162,689			1,162,689
Total	<u>1,162,689</u>			<u>1,162,689</u>
Transfers				
Accounting Entity Transfers	13,732	268,224		281,956
Intra-Entity Expense		190,518		190,518
Total	<u>13,732</u>	<u>458,742</u>		<u>472,474</u>
Total Expenditures & Transfers-Out	<u>\$ 6,424,644</u>	<u>\$ 6,376,450</u>	<u>\$ 874,904</u>	<u>\$ 13,675,998</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,455,115	\$ 101,341	\$ 174,359	\$ 1,730,815
State Special Revenue Fund	2,667,987	4,819,367	528,907	8,016,261
Federal Special Revenue Fund	391,829	1,202,117	115,660	1,709,606
Enterprise Fund	1,909,717	511	55,981	1,966,209
Permanent Fund		253,117		253,117
Total Expenditures & Transfers-Out	<u>6,424,648</u>	<u>6,376,453</u>	<u>874,907</u>	<u>13,676,008</u>
Less: Nonbudgeted Expenditures & Transfers-Out	588,445	474,102	6,530	1,069,077
Prior Year Expenditures & Transfers-Out Adjustments	(102,533)	(14,133)	(284)	(116,950)
Actual Budgeted Expenditures & Transfers-Out	<u>5,938,736</u>	<u>5,916,484</u>	<u>868,661</u>	<u>12,723,881</u>
Budget Authority	11,769,366	10,520,966	1,017,719	23,308,051
Unspent Budget Authority	<u>\$ 5,830,630</u>	<u>\$ 4,604,482</u>	<u>\$ 149,058</u>	<u>\$ 10,584,170</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 185,347	\$ 311	\$ 21,841	\$ 207,499
State Special Revenue Fund	872,790	532,462	45,534	1,450,786
Federal Special Revenue Fund	334,306	4,067,403	80,684	4,482,393
Enterprise Fund	4,438,185	4,307	1,000	4,443,492
Unspent Budget Authority	<u>\$ 5,830,628</u>	<u>\$ 4,604,483</u>	<u>\$ 149,059</u>	<u>\$ 10,584,170</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Department of Agriculture

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Private-Purpose Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include activities related to registration and inspections of fertilizers and feed; grain inspections; wheat, barley, and alfalfa seed market research and promotion; Growth Through Agriculture investments and noxious weed management projects.

Federal Special Revenue Fund – to account for proceeds of specific federal revenue sources legally restricted to expenditures for specific purposes other than major capital projects. Department Federal Special Revenue Funds include Agricultural Sciences, Agricultural Development, and Central Services.

Permanent Fund – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for the Noxious Weed Management Trust activity.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Notes to the Financial Schedules

Department Enterprise Funds include the Hail Insurance, Alfalfa Leaf-cutting Bee, and Beginning Farm Loan Programs.

Fiduciary Fund Category

Private-Purpose Trust Fund – to account for activity of all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The department's Private-Purpose Trust Fund accounts for Rural Development assets. The Private-Purpose Trust Fund moved to the State Special Revenue Fund in fiscal year 2004. The movement of Rural Development assets is shown with a direct entry to fund balance on the Schedule of Changes in Fund Balances & Property Held In Trust for fiscal year 2004.

Agency Fund – to account for resources held by the state in a custodial capacity. The department Agency Funds account for commercial pesticide applicator certificates of deposit.

2. General Fund Balance (negative balances)

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2004, and June 30, 2005.

3. Direct Entries to Fund Balance

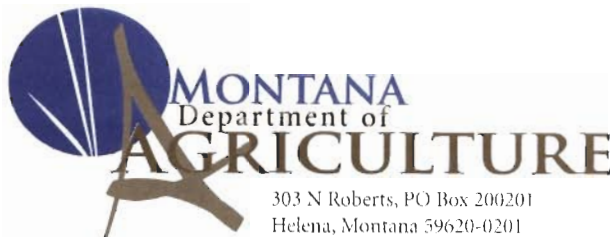
Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, and Permanent funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balances in the Private-Purpose Trust Fund and State Special Revenue Fund in fiscal year 2004 are related to the movement of Rural Development assets from the trust fund to the State Special Revenue Fund.

Notes to the Financial Schedules

4. **Other Financing Sources Revenue Category** The Other Financing Sources revenue category in the State Special Revenue Fund includes accounting transfers from the General and Permanent Funds related to Noxious Weed Management.

Department Response

Brian Schweitzer
Governor



303 N Roberts, PO Box 200201
Helena, Montana 59620-0201

Nancy K. Peterson
Director

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September 26, 2005

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SEP 27 2005

LEGISLATIVE AUDIT DIV.

James Gillett
Deputy Legislative Auditor
Room 160 State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Gillett:

We would like to thank you and your staff for the professional manner in which the department's financial-compliance audit was performed. The results of the audit, as well as suggestions offered, will be used to improve our operations. Listed below are the Department of Agriculture's responses to the audit recommendations presented in your audit report covering the two fiscal years ended June 30, 2005.

Recommendation #1:

We recommend the department record receivables and adjust expenditures related to loans issued by the Growth Through Agriculture program on the state's accounting system, as required by state accounting policy.

Response:

We concur. The department has developed a procedure to record receivables and adjust expenditures related to loans issued by the Growth Through Agriculture program on the state's accounting system. In accordance with this procedure, entries have been made in fiscal year 2006 to accurately reflect the Growth Through Agriculture program through June 30, 2005.

Recommendation #2:

We recommend the department work with the Agriculture Development Council to implement guidelines for documenting decisions related to loan deferment and forgiveness.

James Gillett
September 26, 2005

Response:

We concur. Department staff is developing procedures for documenting decisions on loan forgiveness and deferment for implementation at the fall Agriculture Development Council meeting.

Recommendation #3:

We recommend the department account for refunds issued under the Hail Insurance Program in accordance with state accounting policy.

Response:

We concur. The department strives to properly reflect financial transactions in accordance with state law and through ongoing communication, oversight, and management review the proper codes will be used in the future.

Sincerely,



Nancy K. Peterson
Director

c: Kathy Seacat